

PUBLIC DISCLOSURE

MAY 17, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**LEE BANK
CERT # 33645**

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LEE, MA 01238**

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**Federal Deposit Insurance Corporation
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NOTE:	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.
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GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Massachusetts Division of Banks (“Division”) and the Federal Deposit Insurance Corporation (“FDIC”) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **LEE BANK (or the “Bank”)** prepared by the Division and the FDIC, the institution's supervisory agencies, as of **May 17, 2011**. The agencies evaluate performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division and FDIC rate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and in Appendix A to 12 CFR Part 345 of the FDIC's Rules and Regulations.

INSTITUTION'S CRA RATING: This institution is rated: Satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The primary factors contributing to this rating are summarized as follows:

- The Bank's average net loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of loans are in the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area(s).
- The distribution of borrowers reflects, given the demographics of the assessment area(s), reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- Lee Bank did not receive any CRA-related complaints during the period reviewed. As a result, this performance criterion was not considered when assigning the overall rating.

Optional Review of Investments and Services

Additionally, at the Bank's request, its performance in making qualified investments and providing services that enhance credit availability in its assessment area were considered. The Bank's investment and services activities reflect a good effort in making qualified investments and providing services that enhance credit availability throughout the assessment area. These efforts support the overall rating assigned. Please refer to this evaluation for more details regarding the review of investments and services that enhance credit availability in the Bank's assessment area.

Scope of Evaluation

Small Bank CRA Examination Procedures were used to evaluate the Bank's CRA performance. Small bank examination procedures require the evaluation of an institution's performance pursuant to the following criteria: loan-to-deposit ratio, lending in the assessment area, geographic distribution of loans, lending to borrowers of different incomes, and response to CRA-related complaints. The CRA evaluation includes a review of the Bank's lending activities for the period of March 17, 2008, through May 17, 2011. The data and applicable timeframes of the CRA evaluation are discussed below.

A review of the Bank's loan portfolio and discussions with management revealed the Bank is primarily a residential lender. Since commercial real estate and commercial and industrial loans represent 39.4 percent of the Bank's loan portfolio, small business lending is also reviewed and included in the analysis. More weight is assigned to the Bank's residential lending, however, due to the fact that the Bank's primary focus is residential lending and does a larger volume of residential activity. As the Bank did not originate any small farm loans, they are not considered for analysis purposes. Additionally, consumer lending only represents 0.4 percent of the Bank's loan portfolio; therefore, consumer loans will not be included.

The Bank's residential mortgage loans originated in 2009 and 2010 were considered in this analysis. Greater emphasis was placed on the Bank's 2009 lending performance, since this is the latest year for which aggregate lending data is available. Residential lending activity for calendar year 2010 was also analyzed to identify any significant trends or anomalies and is also discussed within the evaluation.

Information concerning the Bank's residential lending activity was derived from Loan Application Registers ("LARs") maintained pursuant to the Home Mortgage Disclosure Act ("HMDA"). The LARs contain data about home purchase and home improvement loans, including refinancings, on one- to four-family and multifamily (five or more units) properties.

The lending performance of other financial institutions, as reported on their HMDA LARs for 2009, is provided in this evaluation for comparison purposes. This information is referred to as aggregate lending data. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of loan demand. It includes lending information from all HMDA reporting lenders that originated loans in the Bank's assessment area.

The Bank's commercial real estate and commercial and industrial loans, or small business loans, originated for 2010 preceding this evaluation is also considered in the analysis. The Bank's lending performance is compared to business demographic data. The Bank's performance is not compared with aggregate lending data as the Bank is a small bank and is not required to report its CRA small business data.

Information concerning the Bank's small business lending was derived from a sample of 28 loans out of the 78 commercial loans with original balance of \$1,000,000 or less that were originated during the 2010.

The optional review of investments and services included qualified investments, including donations, and services made over the entire review period of March, 17 2008, the date of the last FDIC and Division CRA evaluation, through May 17, 2011.

PERFORMANCE CONTEXT

Description of Institution

Lee Bank is a Massachusetts state-chartered, stock-owned bank. The Bank was established in 1852 and is headquartered in Lee, Massachusetts. The main office is located at 75 Park Street in Lee, and the Bank operates one branch office in Great Barrington, one branch office in Stockbridge, and a loan production office in Pittsfield, Massachusetts. All of the aforementioned offices are located in middle-income Census tracts. The main office and the two branch offices are each equipped with an automated teller machine (ATM). Also, all of the offices are located within Berkshire County of the Pittsfield, Massachusetts Metropolitan Statistical Area (“MSA”).

Lee Bank is a subsidiary of Berkshire Financial Services Inc. This parent company has assets of approximately \$42.6 million, and owns another financial institution, Freedom National Bank.

Lee Bank had total assets of \$265.4 million as of March 31, 2011. Total assets have decreased 7.3 percent since December 31, 2010, the date of the Report of Condition and Income (“Call Report”) used at the last CRA Evaluation conducted by the FDIC and the Division. Since the last CRA Evaluation, the loan portfolio contracted by 9.6 percent, with residential real estate loans being the primary contributor. Loans totaled \$220.3 million at March 31, 2011, and accounted for 83.0 percent of total assets. Refer to Table 1 below for information regarding the composition of the loan portfolio.

Table 1		
Loan Distribution as of March 31, 2011		
Loan Type	Dollar Amount \$(000s)	Percent (%) of Total Loans
1-4 Family Residential	125,992	57.2
Commercial	72,647	33.0
Construction and Land Development	3,696	1.7
Multi-Family Residential (5 + units)	2,346	1.0
Farm	0	0.0
Total Secured by Real Estate	204,681	92.9
Commercial and Industrial Loans	14,069	6.4
Consumer	869	0.4
Other	631	0.3
Total Loans	220,250	100.0
<i>Source: Call Report as of March 31, 2011.</i>		

As the data in Table 1 shows, the Bank is primarily a real estate lender, with 92.9 percent of the loan portfolio secured by real estate. Residential real estate loans comprise the single greatest share, at 58.2 percent of the loan portfolio. These loans are secured by one-to-four family residences and multi-family properties (5+ units), and include closed-end mortgage loans, equity loans, and revolving home equity lines of credit.

Loans secured by commercial real estate comprise the next largest share of the real estate portfolio, at 33.0 percent. Loans for commercial and industrial purpose make up the next largest share of the loan portfolio, at 6.4 percent.

The primary business function of Lee Bank is to provide financial services to its customers. This is achieved through the full lines of personal and business banking including lending, deposit and wealth management services. On the personal banking side, the Bank offers checking and savings accounts, mortgages and home equity loans, personal loans, and online banking with online bill payment services. Further, for small business customers, the Bank offers several products including merchant credit cards, checking, money market and savings accounts, commercial loans, and commercial real estate loans. The Bank is also an approved Small Business Administration (SBA) lender.

The FDIC and the Division assigned Lee Bank a CRA rating of “Satisfactory” at its last CRA evaluation, conducted as of March 17, 2008. For that evaluation, the Bank was reviewed using Intermediate Small Bank Examination procedures. There are no apparent financial or legal impediments that would limit the Bank’s ability to help meet the credit needs of its assessment area. Based upon the Bank’s asset size, product offerings, and branch network, its ability to meet the community’s credit needs remains adequate.

Description of Assessment Area

The CRA requires financial institutions to define an assessment area within which its CRA performance will be evaluated. The assessment area as currently defined meets the technical requirements of the CRA regulation since it: (1) consists of one or more political subdivisions, (2) includes the geographies where the Bank has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the institution originated a substantial portion of its loans, (3) consists of whole Census tracts, (4) does not extend substantially beyond state boundaries, unless otherwise permitted, (5) does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas.

Lee Bank defines its assessment area to include the following cities and towns in Massachusetts: Alford, Becket, Egremont, Great Barrington, Hancock, Hinsdale, Lee, Lenox, Monterey, Mount Washington, New Ashford, New Marlboro, Otis, Pittsfield, Richmond, Sandisfield, Sheffield, Stockbridge, Tyringham, Washington, and West Stockbridge. The entire assessment area is located within Berkshire County and is within the Pittsfield, Massachusetts (MA) MSA. The assessment area as currently defined meets the technical requirements of the CRA regulation.

To assess the Bank’s lending performance demographic data about the assessment area is reviewed and considered. Table 2 below highlights relevant demographic data.

Table 2 Assessment Area Demographic Information					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	25	4.0	12.0	64.0	20.0
Population by Geography	84,993	4.3	9.8	67.7	18.2
Owner-Occupied Housing by Geography	23,858	1.0	5.2	71.9	21.9
Business by Geography (2010)	7,540	10.7	8.0	62.3	19.0
Family Distribution by Income Level	22,280	17.7	19.2	24.1	39.0
Distribution of Low and Moderate Income Families throughout AA Geographies	8,223	5.2	14.4	67.3	13.1
Median Family Income		\$50,150	Median Housing		
HUD Adjusted Median Family Income for 2010		\$65,700	Value		\$132,009
HUD Adjusted Median Family Income for 2009		\$66,900	Unemployment Rate		2.5%
Households Below Poverty Level		9.7%	(2000 US Census)		
<i>Source: 2000 US Census, 2009 and 2010 HUD updated Median Family Income</i>					

Geographies

The assessment area includes 25 Census tracts. Of those tracts, 1, or 4.0 percent, is low-income; 3, or 12.0 percent, are moderate-income; 16, or 64.0 percent, are middle-income; and 5, or 20.0 percent, are upper-income. The low-income Census tract and the moderate-income Census tracts are all located in Pittsfield.

Population

Based on 2000 U.S. Census data, the assessment area has a total population of 84,993 individuals. Of the total population within the assessment area, 4.3 percent of the individuals reside in the low-income Census tract, 9.8 percent reside in the moderate-income Census tracts, 67.7 percent reside in middle-income Census tracts, and 18.2 percent reside in upper-income tracts. Households total 35,665, of which 22.8 percent are low-income, 16.2 percent are moderate-income, 19.3 percent are middle-income, and 41.7 percent are upper-income.

Family Distribution

Providing further insight into the demographic composition of the assessment area population is the number of families at each income level. According to the 2000 U.S. Census data, of the 22,280 families in the assessment area, 17.7 percent are low-income, 19.2 percent are moderate-income, 24.1 percent are middle-income, and 39.0 percent are upper-income. Additionally, 9.7 percent of the assessment area families have incomes below the poverty level, which could be an indicator of limited lending opportunities among low-income borrowers. The HUD adjusted Median Family Income (“MFI”) for the Pittsfield, MA MSA was \$65,700 in 2010 and \$66,900 in 2009. The Department of Housing and Urban Development publishes annual estimates of MFI that are adjusted for inflation and other economic events.

Housing

Housing units within the assessment area total 43,954, of which 23,858, or 54.3 percent, are owner-occupied, and 11,977, or 27.3 percent, are rental units. Of the owner-occupied units within the assessment area, 1.0 percent units are located in low-income Census tracts, 5.2 percent are in moderate-income tracts, 71.9 percent are in middle-income tracts, and 21.9 percent are in upper-income tracts. A total of 18.5 percent are vacant units.

Table 2 displays the median housing value in the assessment area according to 2000 U.S. Census data. More recent data obtained from the *Warren Group* indicated that the 2009 and 2010 median housing values in the Berkshire County rose slightly from 2009 to 2010, with an average median sales price of \$158,000 in 2009, and \$160,000 in 2010. This is below the 2010 median Massachusetts sales price of \$275,000, indicating that the assessment area includes less expensive housing than Massachusetts overall.

Business Data

Numerous businesses operate throughout the assessment area, with the highest concentration in the upper-income Census tracts. According to Dun & Bradstreet 2010 business demographic data, the area has 7,540 businesses in operation, 73.3 percent of which are known to have gross annual revenues under \$1 million. The highest proportion of these business establishments are engaged in the service industry. In terms of employees, approximately 66.0 percent of the area's businesses employ four or fewer people. This reflects a relative high percentage of smaller size businesses are operating in the assessment area.

Unemployment

According to the United States Department of Labor, the projected April 2011 unemployment rate for the Commonwealth of Massachusetts was 7.4 percent. The unemployment rate in Berkshire County was 7.6 percent projected as of April 2011. The average projected unemployment rate of all municipalities included in the assessment area was 5.8 percent, less than the State and Berkshire County.

Competition

The Bank considers its primary competition Legacy Banks and Berkshire Bank, as well as Greylock Federal Credit Union. Lee Bank faces competition from numerous financial institutions that operate within the assessment area. Competitive institutions range from small credit unions to several of the largest institutions in New England, including Greylock Federal Credit Union, Legacy Banks, Berkshire Bank, and Pittsfield Co-operative Bank. HMDA data shows that 156 lenders originated 4,104 residential mortgage loans totaling \$706.8 million in the assessment area during 2009. Lee Bank ranked 3rd in originations, with a market share of 11.4 percent out of all HMDA reporting lenders in the assessment area during 2009. Lee Bank was outranked by Greylock Federal Credit Union and Berkshire Bank, both of which are much larger in asset size and possess a larger branch network.

While the Bank does not report its small business lending data due to its asset size, 2009 aggregate lending data for small business loans was reviewed to determine the number of larger sized financial institutions competing in the assessment area for small business loans. In 2009, 30 lenders reported a total of 2,272 small business loans within the Berkshire County. The lenders originating small business loans include credit card banks, Legacy Banks; Berkshire Bank; Wells Fargo Bank, NA; TD Bank NA; and Bank of America, NA.

Community Contact

One community organization from within the assessment area was contacted as part of the evaluation. The need for industrial jobs and increased economic development for small businesses were noted. For this reason, the primary credit needs identified by the contact were for small business loans, such as working capital and gap financing programs. The representative from this organization stated that area banks are very involved with his organization. He further stated that Lee Bank in particular is a leader in economic development initiatives.

Based on a review of demographic data and community contact information, the assessment area has no one primary credit need. It appears that the area's residents require a variety of consumer loan products to meet personal needs and an array of home financing programs for the purchase, construction, or refinance of a residence. Area businesses appear to require small business loans and other types of lending that supports small businesses in the area that in turn supports jobs and economic development.

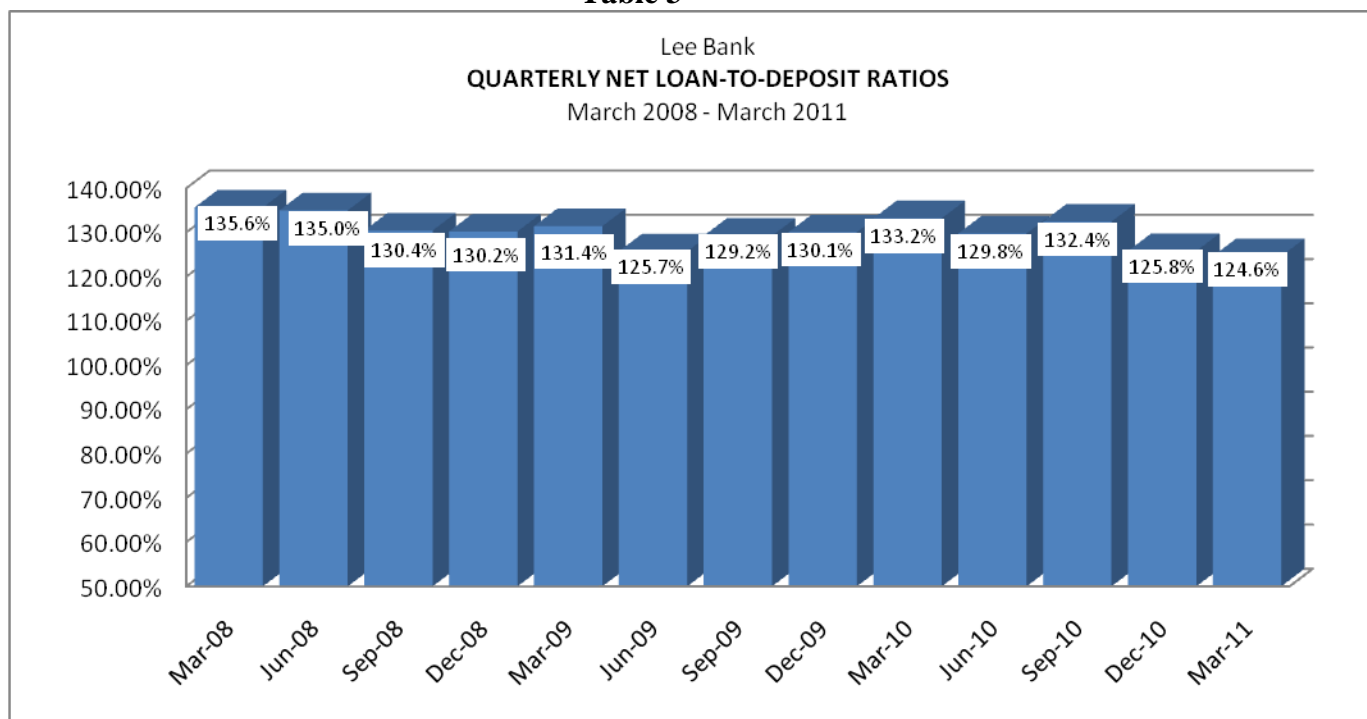
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

I. Loan-To-Deposit (“LTD”) Ratio

This performance criterion determines what percentage of the Bank’s deposit base is reinvested in the form of loans and evaluates its appropriateness. The Bank’s average net LTD ratio is more than reasonable given the institution’s size, financial condition, and assessment area credit needs.

Lee Bank’s average net LTD over the 13 quarters since the prior FDIC and Division CRA Evaluation dated March 17, 2008, is 130.3 percent. The current net LTD ratio, as of March 31, 2011, is 124.6 percent. Over the past three years, Lee Bank experienced loan reduction of 10.4 percent versus deposit reduction of 2.5 percent, though it continued to maintain high ratios. Refer to Table 3 below for additional information regarding the Bank’s net loan-to-deposit ratios and trends in deposits and loans.

Table 3



According to management, the loan and deposit reduction during the evaluation period is attributed to several factors. First, lower rates have resulted in borrowers pursuing fixed rate mortgages, all of which are sold by the Bank on the secondary market. On the deposit side, as Certificate of Deposit rates declined, the Bank’s pricing strategy was to remain competitive in the market but not negotiate rates up for retention, which resulted in the deposit decrease.

For comparison purposes, the Bank’s average net LTD ratio was compared against the average net LTD ratios of 3 similarly situated institutions (in terms of similar asset size and loan portfolio composition). Refer to Table 4 below for the similarly situated institutions’ average net LTD comparison.

Table 4		
Similarly Situated LTD Comparison		
Bank Name	Asset Size \$(000's)	Average Net LTD % 3/31/2008 to 3/31/2011
Lee Bank	265,402	130.3
Williamstown Savings Bank	229,737	77.0
Pittsfield Co-Operative Bank	225,227	81.4
South Adams Savings Bank	204,432	103.5
Adams Co-operative Bank	195,102	105.6
<i>Source: Reports of Condition and Income (Call Reports) from 3/31/2008 – 3/31/2011</i>		

As shown in Table 4 above, the three other institutions' average quarterly net LTD ratios ranged between 77.0 percent and 105.6 percent. At 130.3 percent, the Bank's average net LTD is higher than that reflected by the similarly situated institutions.

In addition to the loans originated for its own portfolio, the Bank also originates residential mortgages that are sold to the secondary market. This practice permits a lender to "recycle" funds and originate a higher volume of loans than would be possible for a portfolio lender alone. From March 17, 2008, through May 17, 2011, the Bank sold 757 residential mortgages on the secondary market totaling approximately \$138.1 million. Loans are sold to Freddie Mac. This is a marked increase in loan sales from the 353 residential mortgages sold on the secondary market totaling \$56.2 million during the last evaluation period. The Bank's secondary market capabilities provide management with the ability to offer a wider array of credit products suitable to the needs of creditworthy homebuyers and homeowners in all income ranges.

II. Assessment Area Concentration

This performance criterion determines what percentage of the Bank's lending occurs within the Bank's assessment area and evaluates its appropriateness. Based on a review of the Bank's home mortgage and small business lending data, a substantial majority of the Bank's lending activity occurs within the assessment area. Refer to Table 5 for the distribution of loans inside and outside the assessment area.

For this performance criterion, Lee Bank's HMDA LARs were reviewed to determine the number and dollar amount of home mortgage loans extended within the assessment area. For calendar years 2009 and 2010, the Bank originated 870 HMDA-reportable loans totaling approximately \$159.4 million. Of these loans, 797 or 91.6 percent were originated inside the Bank's assessment area totaling \$149.0 million or 93.5 percent by dollar amount. Lee Bank's 2010 small business loans were also sampled to determine the number and dollar amount of credit extended within the assessment area. During 2010, the Bank originated 78 small business loans totaling \$8.5 million. A sample of 28 small business loans indicated that 26 or 92.8 percent of the small business loans were originated inside the Bank's assessment area totaling \$3.4 million or 92.5 percent by dollar amount.

Table 5 Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollar Volume (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2009 HMDA Loans										
Home Purchase	48	94.1	3	5.9	51	9,722	94.1	612	5.9	10,334
Refinance	376	93.8	25	6.2	401	69,477	95.2	3,475	4.8	72,952
Home Improvement	44	88.0	6	12.0	50	7,030	91.1	691	8.9	4,930
2009 HMDA Loan Total	468	93.2	34	6.8	502	86,229	94.7	4,778	5.3	91,007
2010 HMDA Loans										
Home Purchase	45	91.8	4	8.2	49	9,198	94.6	528	5.4	9,726
Refinance	237	89.1	29	10.9	266	45,115	91.0	4,486	9.0	49,601
Home Improvement	47	88.7	6	11.3	53	8,428	92.9	643	7.1	9,071
2010 HMDA Loan Total	329	89.4	39	10.6	368	62,741	91.7	5,657	8.3	68,398
2010 Small Business Loans (sample)										
Small Business Loans	26	92.8	2	7.2	28	3,428	92.5	280	7.5	3,708
Grand Total	823	91.6	75	8.4	898	152,398	93.4	10,715	6.6	163,113
Source: 2009 and 2010 Bank HMDA LARs and 2010 small business loans										

As noted in Table 5, a substantial majority of home mortgage and small business loans by number and dollar volume were extended inside the assessment area. The Bank's home mortgage lending activity shows a decreasing trend from 2009 to 2010 as loans decreased by 29.7 percent. The source of the decrease appears in refinance originations, which fell by 139 loans year over year. These figures are indicative of the overall decrease in refinance activity following the initial influx of refinances as a response to decreasing interest rates in 2009. Still, in 2009 and 2010, 613 or 76.9 percent of originations were for the purpose of refinancing a home mortgage. Furthermore, home purchases represent 93 or 11.7 percent of home mortgages, and home improvement loans represent 11.4 percent.

III. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well the Bank is addressing the credit needs throughout the assessment area by census tract income level. The Bank achieved a reasonable dispersion of home mortgage and small business loans throughout its assessment area based on a comparison with the area's demographic data and/or aggregate lending data. The following sections discuss the Bank's performance with regard to each product line reviewed.

Home Mortgage Lending

The Bank's penetration of home mortgage loans throughout the assessment area is reasonable considering assessment area demographics, competition, and credit needs. Table 6 below illustrates the Bank's performance in 2009 and 2010 compared to the percentage of total owner-occupied housing units and the aggregate lending data by the income level of the Census tract.

Table 6 Distribution of Home Mortgage Loans by Income Level of the Census Tract									
Loan Category	# of Bank Loans	Percent of Bank Loans				Percent of Aggregate Lending			
		Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
2009									
Home Purchase	48	2.1	2.1	81.2	14.6	2.0	6.1	71.2	20.7
Refinance	376	0.0	0.5	79.5	20.0	0.5	2.2	72.5	24.8
Home Improvement	44	0.0	0.0	75.0	25.0	3.3	3.8	69.6	23.3
2009 Total	468	0.2	0.6	79.3	19.9	1.1	3.1	72.0	23.8
2010						2010 Aggregate Data Not Available			
Home Purchase	45	2.2	4.4	68.9	24.5				
Refinance	237	0.0	0.4	76.8	22.8				
Home Improvement	47	0.0	0.0	78.7	21.2				
2010 Total	329	0.3	0.9	76.0	22.8				
Demographics	Total # of Units	Distribution of Housing Units in AA							
		Low	Moderate	Middle	Upper				
Owner-Occupied Housing Units	23,858	1.0	5.2	71.9	21.9				
Source: 2009 and 2010 HMDA LARs, 2009 Aggregate HMDA data, and 2000 Census Data									

During 2009, Lee Bank originated one home mortgage in the low-income Census tract within its assessment area, which accounted for 0.2 percent of total 2009 originations. The Bank's performance is lower than the aggregate lenders' performance in the low-income Census tract, where 1.1 percent of total 2009 originations occurred. The Bank's proportion of loans originated in the low-income Census tract is similarly lower than the proportion of owner-occupied housing units in the low-income census tract, at 1.0 percent.

During 2009, the Bank originated three home mortgage loans in the moderate-income Census tracts, or 0.6 percent of total 2009 originations. The proportion of originations in moderate-income Census tracts is lower than the aggregate lenders' performance in the moderate income census tracts at 3.1 percent and the percentage of owner-occupied housing units in the moderate-income census tracts 5.2 percent.

The overall decrease in the volume of lending in 2010 did slightly increase the proportion of Bank originations in the low- and moderate-income Census tracts. In 2010, the Bank originated one loan in the low-income Census tract within its assessment area, which accounted for 0.3 percent of total 2010 originations. Similar to 2009, the Bank's percentage of loans originated in the low-income Census tract during 2010 is also lower than the proportion of owner-occupied housing units in the low-income Census tract, at 1.0 percent. Also in 2010, the Bank originated three loans in the moderate-income Census tracts within its assessment area, which accounted for 0.9 percent of total 2010 originations. Compared with the percentage of owner-occupied housing units in the moderate-income Census tracts, at 5.2 percent, the Bank's moderate-income census tract lending at 0.9 percent lags demographic data.

The one low- and three moderate-income Census tracts are all located in the City of Pittsfield. Several competing financial institutions are headquartered in Pittsfield, including Greylock Federal Credit Union, and in 2009 retained a market share of 47.1 percent of originations in the low- and

moderate-income Census tracts. The financial institution with the next largest market share of originations in the low- and moderate-income Census tracts is Legacy Banks, also headquartered in Pittsfield, with 7.6 percent of originations in 2009. The strong local presence of these significantly larger institutions presents a challenge to the Bank in its efforts to penetrate the low- and moderate-income Census tracts in Pittsfield. Lee Bank continues to operate a Loan Production Office (LPO) in Pittsfield in an attempt to compete with these larger banks. The LPO has been open for more than ten years, and it is available for customers by appointment. The LPO is in a middle-income Census tract, bordering a moderate-income Census tract.

Small Business Lending

The geographic distribution of small business loans reflects less than reasonable dispersion throughout the Bank's assessment area. Refer to Table 7 below for detailed data on the geographic distribution of small business loans within the assessment area. Because the Bank was not required to report its small business data, the Bank's performance is compared against area demographic data but not against aggregate lending performance.

Table 7					
Geographic Distribution of Small Business Loans by Income Level of Census Tract					
Census Tract Income Level	Demographic Data	Bank Loans			
	% of Businesses	Bank Loans #	%	Bank Loans \$(000's)	%
Low	10.7	0	0.0	0	0.0
Moderate	8.1	0	0.0	0	0.0
Middle	62.3	21	80.8	3,284	95.8
Upper	18.9	5	19.2	144	4.2
Total	100.0	26	100.0	3,428	100.0
<i>Source: 2010 small business loans and 2010 Dun & Bradstreet data.</i>					

As reflected in the table, the Bank originated none of its sampled small business loans within low-income Census tracts. This is below demographic indicators, which indicate 10.7 percent of the businesses within the assessment area are in the low-income Census tract. The Bank originated none of its sampled small business loans within the moderate-income Census tracts. This performance is below demographic indicators; 8.1 percent of area businesses are located within these tracts.

Lee Bank's one low-income and three moderate-income Census tracts are all located in downtown Pittsfield. Pittsfield includes several local financial institutions competing for small business loans. For a relatively small bank, attracting customers away from the larger local institutions headquartered in Pittsfield that are offering full services to their business clientele poses a significant challenge.

IV. Borrower Characteristics

The distribution of loans by borrower income was reviewed to determine the extent to which the Bank is addressing the credit needs of the area's residents, particularly low- and moderate-income residents. The distribution of small business loans by gross annual revenue was also evaluated to determine the extent to which the Bank is meeting the credit needs of area's small

businesses. The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among retail customers of different income levels and businesses of revenues. The following discuss the Bank's performance under this criterion with regard to each product line.

Home Mortgage Lending

The borrower distribution of home mortgages, given the demographics of the assessment area, and considering competition and housing prices throughout the assessment area, is reasonable. Refer to Table 8 below for specific data on the borrower distribution of home mortgage loans within the assessment area compared to total families by income level and/or aggregate lending data for 2009.

Table 8 Distribution of Home Mortgage Loans by Borrower Income Levels											
Loan Category	# of Bank Loans	Percent of Bank Loans					Percent of Aggregate Lending				
		Low	Moderate	Middle	Upper	NA	Low	Moderate	Middle	Upper	NA
2009											
Home Purchase	48	10.4	16.7	16.7	47.9	8.3	9.0	23.4	21.0	39.0	7.4
Refinance	376	6.7	16.7	22.3	51.1	3.2	5.5	14.9	21.6	48.1	9.9
Home Improvement	44	4.5	18.2	29.6	47.7	0.0	9.2	25.3	24.0	39.5	10.1
2009 Total	468	6.8	16.9	22.4	50.4	3.4	6.7	17.8	21.7	45.3	8.5
2010							2010 Aggregate Lending Data Not Available				
Home Purchase	45	11.1	15.6	17.8	48.9	6.6					
Refinance	237	2.1	13.1	27.0	56.1	1.7					
Home Improvement	47	6.4	12.8	17.0	55.3	8.5					
2010 Total	329	4.0	13.4	24.3	55.0	3.3					
Demographics	Total # of Families	Distribution of Families in AA									
		Low	Moderate	Middle	Upper						
Families	22,280	17.7	19.2	24.1	39.0						
Source: 2009 and 2010 HMDA LARs, 2009 Aggregate HMDA data, and 2000 Census Data											

As reflected in the table, the Bank extended 6.8 percent of home mortgage loans to low-income borrowers during 2009. The performance is below the percentage of low-income families in the assessment area at 14.8 percent. However, the Bank's low-income borrower lending performance at 6.8 percent is comparable to the aggregate lenders' low-income borrower lending performance of 6.7 percent. In 2009, Lee Bank ranked 2nd out of the 156 lenders originating reportable home mortgage loans to low-income borrowers in the assessment area. The Bank's performance is second only to Greylock Credit Union. Lee Bank's ability to lend to low-income borrowers is notable considering that 9.7 percent of households and 6.4 percent of the families within the assessment area are below the poverty level. For many low-income families, particularly families below the poverty level, qualifying for a home mortgage loan is challenging.

In 2010, the Bank's lending to low-income borrowers decreased to 4.0 percent of total loans. However, because 2010 aggregate lender data is not yet available, it is not known if similar patterns were noted among other financial institutions.

In 2009, the Bank originated 16.9 percent of its home mortgage loans to moderate-income borrowers. This performance is consistent with the aggregate lenders' performance, which shows that 17.8 percent of reportable home mortgage loans were extended to moderate-income borrowers within the assessment area. In 2009, Lee Bank ranked 2nd out of the 156 lenders originating home mortgage loans to moderate-income borrowers in the assessment area. The Bank's proportion of originations to moderate-income borrowers, at 16.9 percent, is similar to the distribution of moderate-income households in assessment area, at 16.3 percent.

In 2010, Lee Bank's lending to moderate-income borrowers decreased to 13.4 percent of total loans. However, because 2010 aggregate lender data is not yet available, it is not known if similar patterns were noted among other financial institutions. The Bank's proportion of originations to moderate-income borrowers, at 13.4 percent in 2010, is somewhat less than, but generally consistent with distribution of moderate income families in the assessment area, at 16.3 percent.

Small Business Lending

The borrower distribution of the Bank's small business loans reflects reasonable penetration among businesses of different sizes. Refer to Table 9 below for specific data on the borrower distribution of sampled small business loans within the assessment area.

Table 9 Distribution of Small Business Loans by Gross Annual Revenue (GAR)					
Gross Annual Revenue	Demographic Data	Bank Loans			
	% Businesses	# of Loans	%	Dollar Amt. \$(000's)	%
<= \$1,000,000	73.4	17	65.4	1,957	57.1
> \$1,000,000	4.8	9	34.6	1,471	42.9
Revenue Not Reported	21.8	0	0.0	0	0.0
Total	100.0	26	100.0	3,428	100.0
<i>Source: 2010 small business loans and 2010 Dun & Bradstreet data.</i>					

As reflected in Table 9, the Bank originated 65.4 percent in number of sampled small business loans to businesses with gross annual revenues at or under \$1.0 million. The Bank's performance is somewhat lower than demographic indicators, as 73.4 percent of area businesses have gross annual revenues of \$1.0 million or less. This performance is positive, considering the

level of competition for commercial loans from large national financial institutions as well as locally-headquartered banks. As the Bank was not required to report small business data, the Bank's performance is compared against area demographics and not against aggregate lending performance.

A further analysis of the 26 small business loans inside the Bank's assessment area was reviewed by the size of the loan amount, under the premise that smaller loans frequently benefit smaller or start-up businesses. Of these loans, 17 or 65.4 percent of the originations were for amounts less than \$100,000, 3 or 11.5 percent were for originations between \$100,000 and \$250,000, and 6 or 23.1 percent were for amounts between \$250,000 and \$1,000,000. The volume of loans under \$250,000 is indicative of the Bank's commitment to lending to small businesses.

In addition, Lee Bank uses its status as an approved SBA lender in an effort to meet the credit needs of smaller businesses in the assessment area. The SBA assists small businesses through its numerous loan programs. During the evaluation period, Lee Bank originated loans through the SBA's 7A and Express loan programs.

Response to CRA- Related Complaints

The Bank has not received any CRA-related complaints since the prior evaluation. As such, this performance criterion is not applicable.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The Bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. No evidence of discriminatory or other illegal credit practices was identified.

OPTIONAL REVIEW OF INVESTMENT AND SERVICES

At the request of Bank management, examiners reviewed the Bank's performance in making qualified investments and services. In evaluating the extent to which a small bank's qualified investments may augment the overall rating, emphasis must be placed on those that enhance credit availability within the assessment area. All qualified bank activities from the date of the previous CRA evaluation on March 17, 2008, through May 17, 2011, were considered. While the Bank's qualified grants and donations were made to worthy organizations that serve various community development purposes, there is limited correlation between the donations and an increase in the availability of credit within the assessment area. The following highlights the Bank's qualified investments and services during the evaluation period.

Qualified Investments

Equity Investments

The Bank has three qualified investments totaling \$38,250 which represents 0.1 percent of the Bank's total investments as of March 31, 2011. Since the last CRA evaluation, the Bank has restructured its CRA qualified investments portfolio and has sold off some qualified investments it previously held. The following is a summary of the qualified equity investments.

- During the evaluation period, the Bank held three bonds. Two of the bonds were to an organization which funds programs to assist low- and moderate-income first-time homebuyers such as providing homebuyers education, low interest rate second mortgages, and discounted first mortgages throughout the Bank's assessment area. The third bond was to an organization whose purpose is to create affordable housing in Berkshire County. As of March 31, 2011, the book value for these securities were \$9,000, \$18,000, and \$11,250, respectively, totaling \$38,250

Grants and Donations

The Bank provided support to a variety of organizations through community development grants and donations. During the evaluation period, the Bank donated a total of \$54,819 in qualified grants and donations. The majority of the total dollar amount donated over the evaluation period, \$54,519 or 99.5 percent, was granted to organizations that provide community services targeted to low- and moderate-income individuals. The Bank provided \$100, or 0.2 percent of qualified donations, to organizations promoting or supporting economic development. The Bank also provided \$200, or 0.3 percent of qualified donations, to organizations that provide affordable housing.

Qualified Services

During the evaluation period, the Bank participated in a few different programs, all available at its branches, which enhance credit availability in its assessment area. Some of these programs are listed here:

- Homeowner's Affordable Modification Program (HAMP) – a government program which helps homeowners who are past due and have housing expenses the exceed 31 percent of their income. Homeowners can apply for a loan modification that could lower

their investment rate or extend the term, by reducing their monthly payments. The Bank currently has 8 homeowners in the program.

- Federal Home Loan Bank - Equity Builder Down-payment Assistance Program. Member banks participating in the program are eligible for grants to provide to qualified households with incomes at or below 80 percent of the area median income. The program provides down-payment, closing-cost, home-buyer counseling, and house rehabilitation assistance.
- MassHousing - First Time Homebuyers loans, refinance loans, home improvement loans, Get the Lead Out loan programs, and Septic System Repair loans. These products are available to low- and moderate-income qualified applicants.

APPENDIX A MINORITY APPLICATION FLOW

A review of HMDA reportable loan applications was conducted in order to determine the number and percentage of HMDA-reportable credit applications the Bank received from minority applicants. For the period reviewed during 2009 and 2010, the Bank received 25 applications, or 2.3 percent, from minority applicants. Of these 25 applicants, 15 (60 percent) were originated; 5 (20 percent), were denied; and 5 (20 percent) were approved not accepted.

The Bank's minority application flow for this period was compared with the racial and ethnic composition of the assessment area. The comparison of these data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. The assessment area has a population of 84,993 persons. The total minority population is 6.5 percent. In terms of race, 93.5 percent is White; 2.4 percent is Black; 1.0 percent is Asian; 0.1 percent is American Indian; and 1.2 percent is Other Race. In terms of ethnicity, 1.8 percent is Hispanic or Latino.

As indicated, the percentage of applications the Bank received from minority applicants was below both the demographic composition of the assessment area as well as that received by the 2009 aggregate data for all other HMDA reporters within the assessment area. The 2010 performance was comparable to that of 2009. The results are detailed below.

MINORITY APPLICATION FLOW							
RACE	Bank 2009		2009 Aggregate Data	Bank 2010		Bank TOTAL	
	#	%		#	%	#	%
<i>American Indian/ Alaska Native</i>	2	0.3	0.3	1	0.2	3	0.3
<i>Asian</i>	3	0.5	0.5	4	0.9	7	0.6
<i>Black/ African American</i>	4	0.7	1.9	1	0.2	5	0.5
<i>Hawaiian/ Pac Isl.</i>	0	0.0	0.1	0	0.0	0	0.0
<i>2 or more Minority</i>	0	0.0	0.1	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	6	0.9	1.2	4	0.9	10	0.9
Total Minority	15	2.4	4.1	10	2.2	25	2.3
<i>White</i>	566	89.1	71.1	393	85.6	959	87.7
<i>Race Not Available</i>	54	8.5	24.8	56	12.2	110	10.0
Total	635	100.0	100.0	459	100.0	1094	100.0
ETHNICITY							
<i>Hispanic or Latino</i>	8	1.3	1.8	4	1.7	11	2.4
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	2	0.3	0.6	0	0.0	0	0.0
<i>Not Hispanic or Latino</i>	559	88.0	73.1	217	93.1	425	92.8
<i>Ethnicity Not Available</i>	66	10.4	24.5	12	5.2	22	4.8
Total	635	100.0	100.0	233	100.0	458	100.0

Source: US Census, HMDA LAR, HMDA Aggregate Data.

The Bank's relatively low minority application flow is mitigated by its main office location in Lee, which has a minority demographic of 3.1 percent. Pittsfield, by comparison, has a minority demographic of 7.8 percent and institutions headquartered in Pittsfield receive the majority of the minority applications in the area.

APPENDIX B

General Definitions

GEOGRAPHY TERMS

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 75 Park Street, Lee, MA 01238."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.